



16 Spring Lane \ Farmington \ CT 06032 \ 860-677-5522 \ Fax: 860-677-5544

John J. Galvin, MAI
john@agvalues.com

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Committee on Real Estate & Insurance
Connecticut General Assembly
Legislative Office Building
Hartford, CT 06106

Re: Senate Bill No. 13
An Act Concerning Real Estate Appraisal Management Companies

Senator Crisco, Representative Fontana and members of the committee, my name is **John Galvin, President of the Connecticut chapter of the Appraisal Institute** and I am here to speak in favor of Senate Bill 13, An Act Concerning Appraisal Management Companies.

The Appraisal Institute is an International Organization that is the largest voice for those appraising real property. Though there is an associate and affiliate membership options with our organization, designated membership requires a rigorous certification program that includes not only a college education, but a series of course work, the passing of comprehensive exams, several levels of documented appraisal experience that can take 3 – 7 years to attain and the passing of a very detailed demonstration appraisal report, which is equivalent to a college thesis.

Members of the Appraisal Institute are not only bound by the requirements of the Uniform Standards of Appraisal Practice, which are appraisal standards written by the Appraisal Foundation (a quasi-government board) but also our own Code of Ethics and additional standards in order to assure "Public Trust" that we routinely perform a credible and quality appraisal analysis and clearly communicate the appraisal analysis and/or value in a manner that is not misleading. The two primary designations are SRA, given primarily to residential and small commercial property appraisers and the MAI, awarded to those who appraise commercial property types and solve complex real estate valuation problems.

Senate Bill 13 is simply a bill to get Appraisal Management Companies (AMC's) to Register with the State of Connecticut. Currently, they are the only part of the lending process that is not required to register or is regulated. This bill is necessary in order to assure appraisal reports are competently completed by qualified appraisers appropriately certified. This Act is not just necessary to protect those relying on the value estimates reported to make competent purchase and finance decision, but also to assure loans are sufficiently collateralized to maintain stability within the banking and secondary mortgage markets.

Raised Bill No 13 has the support of nearly every group the Connecticut Chapter of the Appraisal Institute has had discussions with over the past year, including, but not limited to, the Connecticut Home Builders Association, the CT Association of Realtors, CMBA, independent fee appraisers and even the Title Vendor Management Association, which is the 30 year old trade association for Appraisal Management Companies. You have heard a number of testimonies to date in support of this bill; however, I would like to take a moment to clarify the deception that there is division amongst appraisers on this issue by shedding some light on what has happened within the appraisal industry over the past two years that has forced us here today.

Though within the State of Connecticut we have licensing laws for appraisers, and as part of that law appraisers are required to comply with the Uniform Standards of Professional Appraisal Practice, appraising real property is a profession that relies on experience. Though the barrier of entry was recently raised by the Ct. Real Estate Commission to obtain State Certification, the requirements are designed to meet the minimum criteria to competently appraise real estate.

Appraisal Management Companies have been in existence for a long time. An AMC's primary function is to assist their clients in the appraisal ordering, and often review, function of loan underwriting. Prior to the Home Valuation Code of Conduct (HVCC), there were few AMC's in existence. However, HVCC created a market format that resulted in a sudden increase in the number of AMC's throughout the Country. At the same time, the demand for appraisal services declined in line with the downturn in the economy. This activity resulted in an oversupply of appraisers, particularly those that appraised residential property. Consequently, some AMC's (not all) elected to take advantage of the oversupply by placing inappropriate pressure on appraiser in an attempt to get the lowest fee possible. Since the typical AMC gets a set fee from their client for each appraisal order, the lower the fee that can be contracted, the greater the profit. This activity is common in any market where supply and demand changes shift points of equilibrium.

With the majority of residential work now coming from AMC's, appraisers are forced to either accept low fees and the business terms demanded by many AMC's or abandoned this business segment. Unfortunately, some of the demanding terms placed on appraisers have resulted in a compromise in quality, a factor that is very damaging to the credibility of the appraisal industry as a whole. Fortunately, between some continued changes taking place within the market, and this new legislation, the shake-up created by HVCC that is impacting the consumer is expected to settle out.

The market changes taking place have to do with the supply of appraisers. According to the State of Connecticut Department of Consumer Protection, there are now 1,765 licensed appraisers in the Connecticut. Since 2002, when the housing market started

heating up, the number of Residential Certified Appraisers increased by 75%. However, the count has been declining for the past four years when it hit a high of 1,966 in 2006. With a recertification year in 2010, it is anticipated the count will drop further by the loss of another 200. The decline correlates with the slowdown in market activity. The number of provisional appraisers has also declined by 61% since 2003. The limited amount of work has been forcing many to leave the industry, nearly all of which are appraisers who have entered the business within the past five years.

The Appraisal Institute recognizes that the Appraiser is responsible for the burden of competently developing a credible appraisal analysis for every assignment, regardless of the fee. In order to conduct a proper appraisal analysis of any property type, there is a certain amount of time required and a cost incurred. When the fees get too low to cover the costs, the fear is that quality could be compromised and/or that an AMC could manipulate the appraisal process. The voices coming from appraisers, though sounding different, and in some cases quit emotional, are really all on the same page of passion and respect for appraisal industry.

The Senate Bill No 13 is the other half of the equation that essentially puts an adult in the playground to keep an AMC from bullying market participants. It requires AMC's that order appraisals in the State of Connecticut to register with the Department of Consumer Protection. It also includes minimum requirements for AMC's, such as requirements to make sure appraisers utilized are licensed, that reports are compliant with USPAP, and that competent appraisers are selected, particularly in terms of knowledge of the appraised property's geographic market area. Other restrictions prohibit threats of not being paid, etc. in order to influence value or reporting, *and most importantly that a licensed appraiser is used by the AMC to review the appraisal report.*

Senate Bill 13, An Act Concerning Real Estate Management Companies provides one more level of protection to assure that the credible real estate appraisal industry can continue to provide market data and unbiased value opinions to allow consumers to make competent business decisions. This Connecticut effort is being matched across the country with 6 states passing similar legislation last year and approximately 30 more proposing legislation this year.

Please also note, though most bills will add to the budget constraints of the State of Connecticut, the results of this bill are expected to have a positive impact on fiscal policy. The end result of Senate Bill 13 will not only be less complaints for the Department of Consumer Protection to investigate that may require costly legal action to mitigate, but will also enhance the stage of the Connecticut Real Estate market so it can function in a more liquid format; thus, adding to the pattern of economic recovery, which in time creates revenues that can be taxed.

Thank you for your time and consideration,
John J. Galvin, MAI, President of the CT Chapter of the Appraisal Institute